

SCHOOL DISTRICT OF THE CITY OF ADRIAN
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008
WITH
INDEPENDENT AUDITORS' REPORT

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**ADRIAN PUBLIC SCHOOL DISTRICT-ADRIAN, MICHIGAN
MANAGEMENT DISCUSSION & ANALYSIS LETTER (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Our discussion and analysis of Adrian Public School District's financial performance provides an overview of the School District's financial activities in the fiscal year ended June 30, 2008. This discussion and analysis is a prelude to the audit and a requirement of Governmental Accounting Standards Board (GASB) 34 as initiated in 2000 and implemented in 2003. Under no circumstances should this analysis be taken as a replacement for the reports contained in the audit. This is a management report.

1. The Independent Auditor and GASB 34

The School District's Independent Audit Report restates the districts financial reports after an extensive review. This review includes a thorough investigation and testing of our records and accounting procedures for accuracy, and whether they truly represent the district's financial position.

The intent of GASB 34 is for the financial statements of governmental entities to look like those of private businesses. Consequently, this audit report contains two statements referred to as the "District Wide Financial Statements" and the "Governmental Funds". The primary difference between the two is that the District Wide Financial Statements are presented on a full accrual accounting basis which includes fixed assets and depreciation and the Governmental Fund Statements do not. They are prepared on a modified accrual accounting basis. The report that the district and the State of Michigan use to evaluate the district's financial condition is the Governmental funds report.

2. Fund Accounting Format

School districts use fund accounting instead of the traditional accounting method used by most private businesses. The reason schools and other not for profit organizations use the fund accounting method is that they receive their money from taxes, governmental agencies, grants, sale of bonds, contributions and donations, all of which require that the money provided be used for the specific purpose for which it is being provided. Each fund becomes a different entity. For example, the Operation Fund of the school district receives the majority of money from the state; the rest comes from local taxes, the federal government, transfers from other governmental units and some donations. All of this money must be used for the operation of the school district only. The Capital Projects Fund must use money raised through the sale of bonds for building facilities and development of property only. The Debt Fund must use money which comes from taxes to pay for bonds that were sold to build/remodel facilities and develop property. Other common funds in a school district are the Food Service Fund and the Athletic Fund.

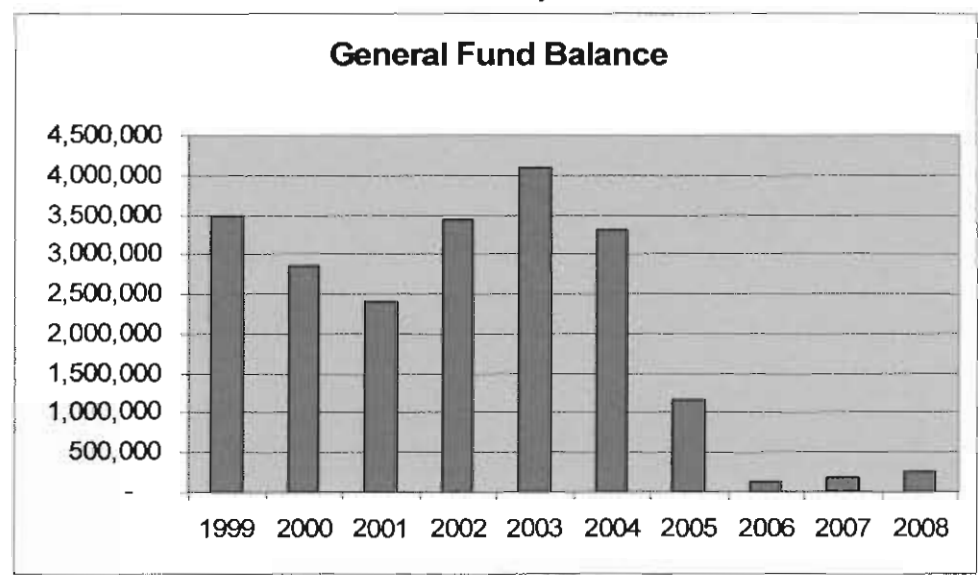
The above is somewhat simplified to make a point because there are local, state and federal laws, statutes and regulations that come with the establishment of each fund.

3. Fund Balance for the Governmental Funds Report

The worth or the measurement of a school district's financial health is based on the districts net assets (most commonly referred to as the fund balance). At the beginning of the 2004 fiscal year, the fund balance was \$4,087,915. During the 2004 fiscal year, the district suffered a loss of \$771,154. In the 2005 fiscal year, the district had a loss of \$2,153,362 followed by yet another loss in fiscal 2006 of \$1,043,639. These losses reduced the fund balance to \$119,760. The auditors recommend a minimum fund balance of 10% of budgeted expenditures, which would be approximately \$3,200,000 for the district. After several cost savings measures in

2007, \$46,404 was added to fund balance. For 2008, the district continued this trend, adding another \$98,517 to fund balance. The fund balance at the end of fiscal year 2008 is \$264,681, still too small for the size of the district budget. The district is preparing multiple year financial forecasts that will help to plan for any potential revenue short falls and adjust expenditures in order to avoid future deficits.

The following chart provides a ten year comparison of the district’s fund balance. Please note the dramatic drop in the fund balance after the end of fiscal year 2003 and 2004 as referenced above.



4. District Wide Statements

The School District’s net assets were \$2,707,816 at the end of June 30, 2008. Of that amount \$3,499,878 is unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District’s ability to use those net assets for day-to-day operations. Our analyses focuses on the Net Assets (Table 1) and Change in Net Assets (Table 2) of the School District’s governmental and business type activities.

The \$3,475,718 in unrestricted net assets of governmental activities represents the accumulated results of all past years’ operations. The unrestricted net assets in the catering fund are \$24,160, which represents the first year of operations in this type of fund. This number represents the amount that would remain if the district had to pay all bills today, including all non current liabilities. This figure is comparable to a business’s “net worth” or “owners’ equity”. This balance is directly affected each year by the District’s operating results as well as the recent GASB pronouncement requiring the recognition of post-retirement benefits that are part of employee contracts.

The Statement of Activities presented on page 4 of the report provides greater detail on the District’s annual activity. During the 2008 fiscal year, the catering fund was added, which is a business activity. This fund is shown separately in the statements.

The Change in Net Assets of \$66,342 shown in Table 2 is the increase in Net Assets for the year, which is reflected in the total net assets shown in Table 1. The differences between governmental activities as reported in the Statement of Net Assets and the Statement of Activities and the governmental funds are reconciled on page 8 of the audit report. The reconciliation explains the difference between Net Change in Fund Balances represented in the total column of Governmental Funds of a negative (\$7,023,563) on page 7 of the audit report and the Changes in Net Assets of \$66,342 shown on page 4 of the audit report.

Table 1

**School District of the City of Adrian
Statement of Net Assets
June 30, 2008 and 2007**

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business Activities</u>	<u>2008</u>	<u>Total 2007</u>
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 413,081	\$ 29,681	\$ 442,762	\$ 1,178,323
Investments	8,462,089		8,462,089	13,735,035
Unrealized loss on Investments (net of premium)			-	(149,839)
Accounts and Taxes Receivable	820,450	18,227	838,677	1,400,266
Due From Governmental Units	4,877,742		4,877,742	5,164,042
Inventories	59,566	1,685	61,251	96,464
Prepaid Expenses	15,445		15,445	39,098
TOTAL CURRENT ASSETS	\$ 14,648,373	\$ 49,593	\$ 14,697,966	\$ 21,463,389
NON CURRENT ASSETS				
Capital Assets	63,428,009		63,428,009	39,063,803
Less Accumulated Depreciation	(14,230,750)		(14,230,750)	(12,763,559)
Construction in Progress				17,826,212
Other non current assets	809,146		809,146	840,424
Interest receivable on defeased bonds	1,621,422		1,621,422	1,688,981
TOTAL NON CURRENT ASSETS	51,627,827	-	51,627,827	46,655,861
TOTAL ASSETS	\$ 66,276,200	\$ 49,593	\$ 66,325,793	\$ 68,119,250
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Expenses	\$ 5,211,623	\$ 25,433	\$ 5,237,056	\$ 7,604,759
State Aid Loan Payable	5,800,000		5,800,000	4,400,000
Current portion of long term obligations	1,365,746		1,365,746	931,692
Current portion of compensated absences	175,258	-	175,258	52,863
TOTAL CURRENT LIABILITIES	12,552,627	25,433	12,578,060	12,989,314
NON CURRENT LIABILITIES:				
Noncurrent portion of long term obligations	50,326,785		50,326,785	51,589,585
Noncurrent portion of interest payable	360,083		360,083	435,058
Noncurrent portion of compensated absences	353,049		353,049	463,819
TOTAL NON CURRENT LIABILITIES	51,039,917	-	51,039,917	52,488,462
TOTAL LIABILITIES	63,592,544	25,433	63,617,977	65,477,776
NET ASSETS:				
Invested in capital assets, net of related debt	(1,379,124)		(1,379,124)	(6,449,927)
Restricted for Capital Outlay			-	9,514,000
Restricted for Debt Service	332,406		332,406	237,224
Restricted for Food Service	254,656		254,656	254,656
Unrestricted	3,475,718	24,160	3,499,878	(914,479)
TOTAL NET ASSETS	\$ 2,683,656	\$ 24,160	\$ 2,707,816	\$ 2,641,474

Table 2

**School District of the City of Adrian
Statement of Changes in Net Assets
June 30, 2008 and 2007**

	Governmental Activities		Business- Type Activities	Governmental Activities	
	2008			2007	
	Subtotal	Total		Subtotal	Total
REVENUES					
Program Revenues					
Charge for Services					
Instruction	\$ 12,716	\$	\$	\$ 6,370	\$
Support	236,661			116,081	
Food Services	608,585			715,429	
Catering			112,244		
Athletics	189,289	1,047,251		165,195	1,003,075
Operating Grants					
Instruction					
State	1,121,578			854,885	
Federal	1,584,670	2,706,248		1,643,755	2,498,640
Support					
State	286,843			198,494	
Federal	2,098,606			2,096,167	
Other	31,265	2,416,714		15,378	2,310,039
Food Service					
Federal	972,117	972,117		907,306	907,306
General Revenues					
Property Taxes - General	4,658,781			4,481,730	
Property Taxes - Debt	3,153,790			3,175,330	
Investment Income	429,147		640	925,964	
State	21,604,213			22,178,765	
Lenawee ISD	1,108,901			900,721	
Contributions	143,671			155,858	
Other	178,312	31,276,815		1,016,384	32,834,752
		\$ 38,419,145	\$ 112,884		\$ 39,553,812
EXPENSES					
Instruction					
Salaries & Benefits	\$ 18,617,578	\$	\$	\$ 19,535,463	\$
Other	1,045,065	19,662,643		1,131,134	20,666,597
Support					
Salaries & Benefits	8,688,565			9,132,329	
Other	3,434,365	12,122,930		2,878,609	12,010,938
Food Services					
Salaries & Benefits	702,655			691,565	
Other	1,010,610	1,713,265		1,066,879	1,758,444
Athletics					
Salaries & Benefits	457,452			656,745	
Other	347,186	804,638		188,075	844,820
Community Services					
Salaries & Benefits	132,081			89,012	
Other	109,073	241,154		146,588	235,600
Other	13,068	13,068	88,724	75,208	75,208
Depreciation (unallocated)	1,467,191	1,467,191		710,544	710,544
Amortization (unallocated)	31,278	31,278		19,165	19,165
Interest on long term debt	2,320,796	2,320,796		2,584,393	2,584,393
		38,376,963	88,724		38,905,709
CHANGE IN NET ASSETS		\$ 42,182	\$ 24,160		\$ 648,103

5. FINANCIAL ANALYSIS

a) Fund Balance

Fund balance is an accounting concept of the difference between what is owned (assets) and what is owed (liabilities). It is a measurement of an entities worth at a point in time. On June 30, 2008, the district's general fund balance was \$264,681, as shown in the Balance Sheet on page 5.

b) Assets

Total current assets in the general fund are \$11,333,837, as shown on page 5 in the Balance Sheet. Investments made on behalf of the district are in accordance with restrictions imposed by state law. Cash in non-interest bearing accounts is kept at a minimum, with funds in excess of that needed to cover outstanding checks moved to an investment pool account designed specifically for school districts. The district maintains cash flow for its daily operations and invests all of its money with maturities coming due when the money will be needed.

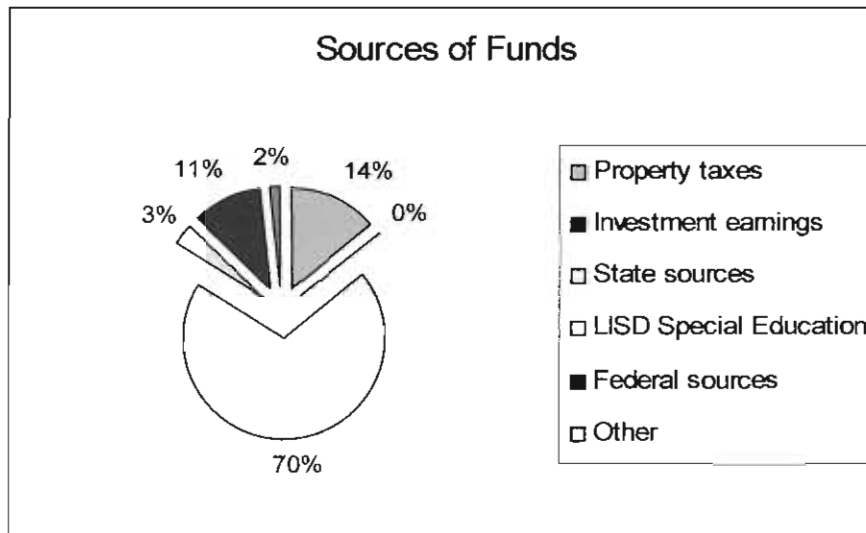
c) Revenues

Since the enactment of Proposal A in 1994, the State of Michigan is the primary source of funds for the district (see the following chart). The State of Michigan provides schools with a foundation grant per student which is used for overall operation of the district. For 2007-2008 the district received \$7,204 per student. The state also provides other grants or categorical dollars that are to be used for specific purposes. These types of allocations are provided as stated amounts of money instead of on a per student basis. The total revenues from the state are shown on page 7 in the Governmental Funds report.

Local taxes for residential homes in the Adrian School District were reduced by approximately 80% when proposal A was enacted. Property taxes collected for residential home owners are transferred directly to the state while non residential homeowners' education related taxes are transferred to the school. The total local taxes collected for 2007-2008 are on page 7, the Governmental Funds report.

Federal funds are dedicated to specific program purposes. Federal dollars are reported on the Governmental Fund report on page 7.

The district revenues mentioned above are the three main sources of revenue as indicated on the following chart. Other revenue sources are on the Governmental Fund report on page 7. General fund revenues are also illustrated in the following chart.



d) Cash Flow

Cash flow is a big issue with most districts in the state. With Proposal A, most of the property taxes were eliminated and replaced with a sales tax which goes into the School Aid Fund which is used to pay the school districts their Foundation grants.

Before Proposal A, schools would collect both state aid and property taxes throughout the school year. Larger amounts of taxes would be collected and invested to be used as needed in both July, the beginning of the fiscal year, and in the February, the middle of the school year. The state payment was received twice a month for the entire school year.

Currently, 70% of the money that schools receive for operations is distributed through the state. The state pays once a month for eleven months, with receipt of the first payment in October. Consequently, a cash flow problem is created. The district had to borrow \$4.4 million dollars in fiscal year 2006-2007 and \$5.8 million in fiscal year 2007-2008. The district will need to borrow \$3.8 million dollars for the 2008-2009 school year.

e) Foundation Grant/State Aid

A major determinant of the amount of State Foundation Grant money received from the state is the student enrollment. Foundation grant amounts are based on a "blended count" of students. School districts have two student count days, one is in September of the current fiscal year and the other is in February. The computation is based on a 25% weight for the prior fiscal year February count and 75% of the current year September count. Over the years, enrollment in the district has been declining since the number of pupils peaked at over 6,400 students in 1974. The district student enrollment has declined an average of over 100 students per year. The blended enrollment for 2007-2008 is 3,580. Projections for 2008-2009 are estimated at 3,491.

Students have the right to attend a school of their choice within the district subject to the availability of space in the classrooms. They can also apply to a different school district, and if accepted, can attend school in that district. The estimate for Adrian students that participate in school of choice in other districts range in the mid to high 800s. Students from other districts attending Adrian Public Schools are in the low 200s. The district hopes to reverse this trend in the near future.

f) Special Education Funding

Special education funding consists of the foundation grant per student, a categorical “hold harmless” amount of approximately \$192,545 per year, Medicaid payments for “fee for service” and distributions from the Lenawee Intermediate School District from a special levy collected by the LISD for special education authorized by Act 18 of 1954. The total special education funding fell \$441,219 short of the total special education direct expenses in 2007-08, in contrast to a shortfall of about \$180,000 in 1998-99. See Table 4. The expenses in the special education programs are difficult to control, given the requirements for outreach and for identification of students with special needs, class size, and teacher case load under the federal Individuals with Disabilities Education Act (IDEA) and the state mandates that flow from that federal act.

The district cooperates with the LISD for the more intensive special education services, including the Laura Haviland program for the severely emotionally impaired. The district’s share of the cost of this program is deducted from the Act 18 distribution.

Table 4

	<u>1998-1999</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Spec. Ed. Foundation grant	1,110,086	1,332,630	1,365,420	1,328,476
State categorical	210,700	210,700	210,700	210,700
LISD Act 18 funds	1,161,965	1,003,979	663,309	610,312
Medicaid FFS/Outreach	<u>177,326</u>	<u>35,744</u>	<u>73,333</u>	<u>77,000</u>
Total Reimbursements	2,660,077	2,583,052	2,312,761	2,226,488
Total Special Ed. Costs	<u>2,839,569</u>	<u>3,538,737</u>	<u>3,556,445</u>	<u>3,449,927</u>
Unreimbursed Costs	<u>(179,492)</u>	<u>(955,685)</u>	<u>(1,243,684)</u>	<u>(1,223,439)</u>
Percentage Reimbursement	<u>93.7%</u>	<u>73.0%</u>	<u>65.0%</u>	<u>64.5%</u>
	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	
Spec. Ed. Foundation grant	1,425,875	1,505,609	1,345,357	
State categorical	192,454	192,454	192,454	
LISD Act 18 funds	635,822	862,653	1,011,720	
Medicaid FFS/Outreach	<u>49,114</u>	<u>37,568</u>	<u>115,217</u>	
Total Reimbursements	2,303,265	2,598,284	2,664,748	
Total Special Ed. Costs	<u>3,330,917</u>	<u>3,469,839</u>	<u>3,105,967</u>	
Unreimbursed Costs	<u>(1,027,652)</u>	<u>(871,555)</u>	<u>(441,219)</u>	
Percentage Reimbursement	<u>69.1%</u>	<u>74.9%</u>	<u>85.8%</u>	

6. Expenses

a) Salaries and Benefits

Compensation of employees in the form of salaries and benefits are a significant portion of the School District's expenses (over 80%). The district is challenged in keeping its employees' salaries competitive with neighboring school districts which have higher foundation allowances per pupil or which are not experiencing declines in student enrollment. Health insurance costs have increased dramatically in recent years, with increases in premiums in excess of 12% in 2005 and as high as 17% for 2007. Contributions to the Michigan Public School Employees' Retirement System (MPSERS) for the 2003-04 were 12.99% and continued to increase for fiscal years 2005, 2006 and 2007 with contribution rates set at 14.87%, 16.34% and 17.47% respectively. The rate for 2007-2008 dropped slightly to 16.72%, and dropped again for 2008-2009 to 16.54%.

b) Other expenses

Instructional purchases, including textbooks and supplemental learning materials, supplies, and purchased services comprise a substantial part of each year's budgetary expenditures.

c) Maintenance and Transportation

Operation and maintenance of our school buildings and vehicles also require a substantial portion of the district's budget. The bond project approved on May 10, 2004, is nearing completion and is expected to reduce future maintenance costs.

7. Budget factors

Public Act 621 commonly known as the "The Uniform Budget Act of the State of Michigan" requires that the local board of education approve an operating budget by July 1st of each year. The budget is based on the best available information at that time. As a matter of practice, however, the District amends its budget during the school year, usually in December or January. In fact, all Michigan school districts must complete a second full budget after the state's official student membership count date (the fourth Wednesday in September), because only then do they know their Foundation Grant's income level and other significant factors, such as staffing. These revisions are made in order to deal with unexpected changes in revenues and expenditures.

Each year's expenditure plan includes restricted funds "carried over" from the past year in various state or federal grants. Because the amount of these carryovers cannot be reasonably estimated at the time the original budget for the year is prepared in May, these amounts are added to the revised budgets adopted at mid-year and at the end of year.

The resolution adopting the budget specifies that whenever the district becomes aware of issues that will affect the budget by \$50,000, either positively or negatively, the budget must be amended to reflect that change.

In comparing original budget, final budget, and actual figures for the year in the general fund, revenue budgets from State and Federal sources were not used in total, causing over \$600,000 to be carried over to the next school year. On the expenditure side, a change in accounting for delinquent personal property taxes led to a \$161,773 actual expenditure over the amount budgeted. An additional payout of leave days for employees that retired caused the actual year to date expenditures over budget to be \$47,973. Finally, the district anticipated selling grounds and maintenance equipment budgeted at \$50,000, which did not happen by the end of the fiscal year.

8. Special Revenue Funds

The School Lunch Fund receives its revenues from the sale of goods, state and federal grants.

The Athletic Fund receives its revenues from admission fees and transfers from the General Fund. For the fiscal year 2007-2008, admission and other fees totaled \$189,530 while the General Fund transferred \$615,108 to the Athletic Fund.

9. Debt Service Fund

During the 2007-2008 fiscal year, the School District's activity in its Debt Service Fund was related to the collection of taxes and payments of interest and principal toward the retirement of the May 10, 2004 bond issue. The bond sale was closed on July 1, 2004 in the face amount of \$49.75 million as shown on Note 5 on pages 22 through 23 of the report.

10. Capital Assets and Debt Administration

The School District has \$63,428,009 invested in capital assets, net of accumulated depreciation of \$14,230,749.

The district's inventory of buildings had been well maintained, but was facing significant life cycle replacement needs, including roofs, replacement of carpeting and other flooring. The age of the buildings range for those built in 1926 (Garfield, Lincoln and McKinley Elementary Schools) to the most recent in 1973-74 (Springbrook Middle School). All of the district's buildings were substantially renovated in the Bond Project.

The district's bus fleet had been placed on a replacement schedule, with the plan to replace 4 busses every two years. The district has little choice but to replace some of the busses due to facing the risk of being "red tagged" due to rust. Since 2003, the replacement schedule for bus purchases had been postponed due to operating budget reductions. Since the passage of the bond, several busses have been purchased.

At the fiscal year ending June 30, 2008, the district's long-term debt obligations included \$516,383 in Durant bonds, \$353,049 in compensated absences including accrued vacation and sick pay leave \$764,073 of post retirement benefits and \$5,430,000 of building and site bonds from the 2004 Bond Project and \$43,665,000 of refunded building and site bonds from the 2004 Bond Project. More detail is presented in the notes to the financial statements, including the obligation of the State to pay the Durant bonds as part of the settlement of what is known

as the “Durant” lawsuit. Due to economic conditions of the State of Michigan, payments of State Aid on the Durant bonds were eliminated, and those payments due in years 2003 thru 2008 are scheduled to be paid in year 2012.

11. Proprietary Fund

During the 2007-2008 fiscal year, a portion of the food service fund was branched off to a new fund, the catering fund. This fund is used to track activity that is business like in nature. Catering by the food service employees is done with the intention of earning a profit at the end of the year. This type of activity is more like the business sector, therefore, it is classified as a Proprietary Fund. Net assets at the end of the year were \$24,160.

12. Economic Factors

Future revenues of the district are uncertain due to the economy in the State of Michigan. As the state faces a budgetary crisis, it is likely that cuts could be made to the amount of money received per pupil by the State of Michigan. In addition, increases in retirement expenses are expected with the poor performance in the market during the last several months. Finally, the district has an employee dishonesty case that has caused a transfer from the general fund to the activity account to cover missing funds. This case is not closed, and could lead to additional restoration of account balances by the district once insurance claims have been finalized and potential restitution received.

13. Contacting the District’s Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District’s finances and to demonstrate the School District’s accountability for the money it receives. If you have questions about this report or need additional information, please contact:

Kathy Westfall, Chief Financial Officer
Adrian Public Schools
785 Riverside Avenue, Suite 1
Adrian, MI 49221
517-264-6647
kwestfall@adrian.k12.mi.us

INDEPENDENT AUDITORS' REPORT

To the Board of Education
School District of the City of Adrian
Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the School District of the City of Adrian, as of and for the year ended June 30, 2008, which collectively comprise the School District of the City of Adrian's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of the City of Adrian's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type, the major fund, and the aggregate remaining fund information of the School District of the City of Adrian, as of June 30, 2008, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2008 on our consideration of the School District of the City of Adrian's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

To the Board of Education
School District of the City of Adrian
Adrian, Michigan

The management's discussion and analysis and budgetary comparison information on pages *i* through *x* and page 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of Adrian's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the School District of the City of Adrian. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
October 16, 2008

SCHOOL DISTRICT OF THE CITY OF ADRIAN

STATEMENTS OF NET ASSETS

June 30, 2008 and 2007

<u>ASSETS</u>	<u>PRIMARY GOVERNMENT</u>		<u>Totals</u>	
	<u>Governmental Activities</u>	<u>Business Activities</u>	<u>2008</u>	<u>2007</u>
CURRENT ASSETS:				
Cash and cash equivalents	\$ 413,081	\$ 29,681	\$ 442,762	\$ 1,178,323
Investments	8,462,089		8,462,089	13,735,035
Premium discount on investment				(101,757)
Unrealized loss on investment				(48,082)
Taxes receivable	543,577		543,577	580,773
Accounts receivable	276,873	18,227	295,100	579,270
Due from other governmental units	4,829,716		4,829,716	5,146,352
Due from other nongovernmental funds	48,026		48,026	17,690
Interest receivable				240,223
Inventory	59,566	1,685	61,251	96,464
Prepaid expenses	15,445		15,445	39,098
TOTAL CURRENT ASSETS	<u>14,648,373</u>	<u>49,593</u>	<u>14,697,966</u>	<u>21,463,389</u>
NONCURRENT ASSETS:				
Capital assets	63,428,009		63,428,009	39,063,803
Less: Accumulated depreciation	(14,230,749)		(14,230,749)	(12,763,559)
Construction in progress				17,826,212
Discount and bond costs	889,842		889,842	889,843
Less: Accumulated amortization	(80,697)		(80,697)	(49,419)
Interest receivable on defeased bonds	1,621,422		1,621,422	1,688,981
TOTAL NONCURRENT ASSETS	<u>51,627,827</u>	<u>-</u>	<u>51,627,827</u>	<u>46,655,861</u>
TOTAL ASSETS	<u>\$ 66,276,200</u>	<u>\$ 49,593</u>	<u>\$ 66,325,793</u>	<u>\$ 68,119,250</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES:				
Accounts payable	\$ 1,134,526	\$ 432	\$ 1,134,958	\$ 2,482,316
Retainage payable				1,262,582
State aid loan payable	5,800,000		5,800,000	4,400,000
Due to other nongovernmental funds				22
Interest payable	183,796		183,796	145,202
Salaries payable	2,687,862	19,610	2,707,472	2,535,862
Accrued expenses	638,496	5,391	643,887	523,861
Unearned revenue	566,943		566,943	654,914
Current portion of long term obligations	1,365,746		1,365,746	931,692
Current portion of compensated absences	175,258		175,258	52,863
TOTAL CURRENT LIABILITIES	<u>12,552,627</u>	<u>25,433</u>	<u>12,578,060</u>	<u>12,989,314</u>
NONCURRENT LIABILITIES:				
Noncurrent portion of long term obligations	50,326,785		50,326,785	51,589,585
Noncurrent portion of interest payable	360,083		360,083	435,058
Noncurrent portion of compensated absences	353,049		353,049	463,819
TOTAL NONCURRENT LIABILITIES	<u>51,039,917</u>	<u>-</u>	<u>51,039,917</u>	<u>52,488,462</u>
TOTAL LIABILITIES	<u>63,592,544</u>	<u>25,433</u>	<u>63,617,977</u>	<u>65,477,776</u>
NET ASSETS:				
Invested in capital assets, net of related debt	(1,379,124)		(1,379,124)	(6,449,927)
Restricted for capital outlay	2,296,738		2,296,738	9,514,000
Restricted for debt service	332,406		332,406	237,224
Restricted for school lunch	254,656		254,656	254,656
Unrestricted	1,178,980	24,160	1,203,140	(914,479)
TOTAL NET ASSETS	<u>\$ 2,683,656</u>	<u>\$ 24,160</u>	<u>\$ 2,707,816</u>	<u>\$ 2,641,474</u>

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants	Governmental Activities	Primary Government Business-Type Activities	Totals
PRIMARY GOVERNMENT:						
GOVERNMENTAL ACTIVITIES:						
Instruction	\$ 19,662,643	\$ 12,716	\$ 2,706,248	\$ (16,943,679)	\$ (16,943,679)	\$ (18,161,587)
Support services	12,122,930	236,661	2,416,714	(9,469,555)	(9,469,555)	(9,584,818)
Food services	1,713,265	608,585	972,117	(132,563)	(132,563)	(135,709)
Athletics	804,638	189,289		(615,349)	(615,349)	(679,625)
Community services	241,154			(241,154)	(241,154)	(235,600)
Other	13,068			(13,068)	(13,068)	(75,208)
Interest on long term debt	2,320,796			(2,320,796)	(2,320,796)	(2,584,393)
Unallocated depreciation	1,467,191			(1,467,191)	(1,467,191)	(710,544)
Amortization of bond costs	31,278			(31,278)	(31,278)	(19,165)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 38,376,963	\$ 1,047,251	\$ 6,095,079	\$ (31,234,633)	\$ (31,234,633)	\$ (32,186,649)
BUSINESS-TYPE ACTIVITIES:						
Catering fund	88,724	112,244			23,520	
TOTAL BUSINESS-TYPE ACTIVITIES	88,724	112,244	-	-	23,520	-
TOTAL PRIMARY GOVERNMENT	\$ 38,465,687	\$ 1,159,495	\$ 6,095,079	\$ (31,234,633)	\$ (31,211,113)	\$ (32,186,649)
GENERAL REVENUES:						
Property taxes, levied for general purposes				4,658,781	4,658,781	4,481,730
Property taxes, levied for debt service				3,153,790	3,153,790	3,175,330
Investment earnings				429,147	429,787	925,964
State sources				21,604,213	21,604,213	22,178,765
Intermediate sources				1,108,901	1,108,901	900,721
Contributions				143,671	143,671	155,858
Sale of property assets						466,573
Other				178,312	178,312	549,811
TOTAL GENERAL REVENUES				31,276,815	31,277,455	32,834,752
CHANGE IN NET ASSETS				42,182	24,160	648,103
Net assets, beginning of year				2,641,474	-	1,993,371
Net assets, end of year				\$ 2,683,656	\$ 24,160	\$ 2,641,474

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2008

With Comparative Totals for June 30, 2007

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Totals Governmental Funds 2008</u>	<u>2007</u>
ASSETS:					
Cash and cash equivalents	\$ 358,130	\$	\$ 54,951	\$ 413,081	\$ 1,178,323
Investments	5,426,367	2,568,301	467,421	8,462,089	13,633,278
Taxes receivable	507,057		36,520	543,577	580,773
Accounts receivable	148,620		28,253	176,873	579,270
Interfund receivable	6,520			6,520	
Due from other governmental units	4,829,716			4,829,716	5,146,352
Due from other nongovernmental units			48,026	48,026	17,690
Interest receivable					61,184
Inventory	43,718		15,848	59,566	96,464
Prepaid expenditures	13,709		1,736	15,445	39,098
TOTAL ASSETS	<u>\$ 11,333,837</u>	<u>\$ 2,568,301</u>	<u>\$ 652,755</u>	<u>\$ 14,554,893</u>	<u>\$ 21,332,432</u>
LIABILITIES:					
Accounts payable	\$ 845,577	\$ 265,043	\$ 23,906	\$ 1,134,526	\$ 2,482,316
State aid loan payable	5,800,000			5,800,000	4,400,000
Interfund payable		6,520		6,520	
Due to other nongovernmental units					22
Interest payable	183,796			183,796	145,202
Salaries payable	2,682,878		4,984	2,687,862	2,535,862
Compensated absences	357,162		31,107	388,269	418,211
Accrued expenditures	637,421		1,075	638,496	523,861
Unearned revenue	562,322		4,621	566,943	654,914
TOTAL LIABILITIES	<u>11,069,156</u>	<u>271,563</u>	<u>65,693</u>	<u>11,406,412</u>	<u>11,160,388</u>
FUND BALANCES:					
Reserved for:					
Taxes receivable	507,507			507,507	560,450
Inventory	43,718		15,848	59,566	96,464
School lunch program			238,808	238,808	239,206
Subsequent years expense		2,296,738		2,296,738	9,514,000
Debt service			332,406	332,406	237,224
Prepaid expenditures	13,709			13,709	36,840
Unreserved, reported in:					
General Fund	(300,253)			(300,253)	(512,140)
TOTAL FUND BALANCES	<u>264,681</u>	<u>2,296,738</u>	<u>587,062</u>	<u>3,148,481</u>	<u>10,172,044</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,333,837</u>	<u>\$ 2,568,301</u>	<u>\$ 652,755</u>	<u>\$ 14,554,893</u>	<u>\$ 21,332,432</u>

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
TOTAL GOVERNMENTAL FUND BALANCES	\$ 3,148,481	\$ 10,172,044
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in the govern- mental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	63,428,009	39,063,803
Construction in progress less retainage		16,563,630
The accumulated depreciation is	<u>(14,230,750)</u>	<u>(12,763,559)</u>
	49,197,259	42,863,874
The discount on bonds reported in the governmental activities are not financial resources and are not reported in the funds:		
Unearned discount on bonds	889,843	889,843
Accumulated amortization on discount	<u>(80,697)</u>	<u>(49,419)</u>
	809,146	840,424
Other long term assets are not available to pay for current period expenditures		
Interest receivable on defeased bonds	1,621,422	1,688,981
Revenues in the Statement of Activities that do not provide current financial resources and are not reported in the funds.	100,000	179,039
Unrealized loss on investments		(48,082)
Long term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds payable	(50,576,383)	(51,266,383)
Interest payable on long-term debt	(360,083)	(435,058)
Compensated absences	(140,038)	(98,471)
Other post retirement benefits	<u>(1,116,148)</u>	<u>(1,254,894)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,683,656</u>	<u>\$ 2,641,474</u>

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF ADRIAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Totals Governmental Funds 2008</u>	<u>2007</u>
REVENUES:					
Local sources:					
Property taxes	\$ 4,658,781	\$	\$ 3,153,790	\$ 7,812,571	\$ 7,657,060
Investment earnings	140,337	554,692	33,981	729,010	918,595
Food sales and athletic admissions			797,874	797,874	880,625
Contributions	143,671			143,671	155,858
Other	<u>395,579</u>	<u>25,614</u>	<u>35,503</u>	<u>456,696</u>	<u>542,772</u>
TOTAL LOCAL SOURCES	5,338,368	580,306	4,021,148	9,939,822	10,154,910
State sources	22,912,392		100,241	23,012,633	23,232,144
Federal sources	3,673,385		972,117	4,645,502	4,647,228
Intermediate sources	<u>1,118,791</u>			<u>1,118,791</u>	<u>900,721</u>
TOTAL REVENUES	<u>33,042,936</u>	<u>580,306</u>	<u>5,093,506</u>	<u>38,716,748</u>	<u>38,935,003</u>
EXPENDITURES:					
Current:					
Instruction	19,786,320			19,786,320	20,397,179
Support services	12,249,219	8,397		12,257,616	12,010,938
Food service activities			1,713,265	1,713,265	1,758,444
Athletic activities			804,638	804,638	844,820
Community service activities	241,154			241,154	235,599
Other expenditures		6,401		6,401	
Building improvements & capital outlay	54,674	7,742,607	9,962	7,807,243	13,893,703
Debt Service:					
Interest			2,395,771	2,395,771	2,553,562
Other					69,109
TOTAL EXPENDITURES	<u>32,331,367</u>	<u>7,757,405</u>	<u>4,923,636</u>	<u>45,012,408</u>	<u>51,763,354</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>711,569</u>	<u>(7,177,099)</u>	<u>169,870</u>	<u>(6,295,660)</u>	<u>(12,828,351)</u>
OTHER FINANCING SOURCES (USES):					
Sale of school property	370		25	395	507,823
Loss on sale of investments		(40,163)		(40,163)	(427,089)
Prior year revenue	1,686			1,686	3,064
Prior year expenditures					(6,099)
Other			179	179	
Redemption of principal			(690,000)	(690,000)	(555,000)
Transfers in			615,108	615,108	679,082
Transfers out	<u>(615,108)</u>			<u>(615,108)</u>	<u>(679,082)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(613,052)</u>	<u>(40,163)</u>	<u>(74,688)</u>	<u>(727,903)</u>	<u>(477,301)</u>
NET CHANGE IN FUND BALANCES	98,517	(7,217,262)	95,182	(7,023,563)	(13,305,652)
FUND BALANCES:					
Beginning of year	<u>166,164</u>	<u>9,514,000</u>	<u>491,880</u>	<u>10,172,044</u>	<u>23,477,696</u>
End of year	<u>\$ 264,681</u>	<u>\$ 2,296,738</u>	<u>\$ 587,062</u>	<u>\$ 3,148,481</u>	<u>\$ 10,172,044</u>

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Years Ended June 30, 2008 and 2007
With Comparative Totals for the Year Ended June 30, 2007

	<u>2008</u>	<u>2007</u>
Net change in fund balances total governmental funds	\$ (7,023,563)	\$ (13,305,652)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balances. These costs are allocated over their estimated useful lives as depreciation on the Statement of Activities:		
Depreciation expense	(1,467,191)	(710,544)
Capital outlay	7,800,576	13,893,703
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to increase net assets.		
Sale of school property less gain on sale		(41,250)
Accrued interest earned on investments	(240,223)	7,369
Unrealized gain (loss) on investments	48,082	568,892
Accrued interest on bonds and other long-term obligations is recorded in the Statement of Activities when incurred, it is not recorded in the governmental funds until it is paid.		
Accrued interest payable beginning of year	435,058	404,227
Accrued interest payable end of year	(360,083)	(435,058)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment on long-term debt and related items.	591,163	535,835
Revenues in the Statement of Activities that do not provide current Financial resources are not reported as revenues in governmental funds	100,000	
Other post retirement benefits and compensated absences are reported on the accrual method in the Statement of Activities, and recorded as expenditures when financial resources are used in the governmental funds:		
Post retirement benefits	138,746	(215,021)
Accrued compensated absences beginning of year	98,472	44,074
Accrued compensated absences end of year	<u>(78,855)</u>	<u>(98,472)</u>
Change in net assets of governmental activities	<u>\$ 42,182</u>	<u>\$ 648,103</u>

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2008

With Comparative Totals for the Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Catering Fund 2008
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 29,681
Accounts receivable	18,227
Inventory	<u>1,685</u>
Total assets	<u>\$ 49,593</u>
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	432
Salaries payable	19,610
Benefits payable	<u>5,391</u>
Total liabilities	<u>25,433</u>
Net assets:	
Reserved for inventory	1,685
Unrestricted	<u>22,475</u>
Total net assets	<u>\$ 24,160</u>

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF ADRIAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2008

	Business-Type Activities - Enterprise Fund
	<u>Catering Fund</u> <u>2008</u>
Operating revenues:	
Catering fees	\$ 112,244
Total operating revenues	<u>112,244</u>
Operating expenses:	
Salaries and benefits	44,276
Contracted services	472
Supplies	16,742
Other	<u>27,234</u>
Total operating expenses	<u>88,724</u>
Operating income	<u>23,520</u>
Nonoperating revenues:	
Interest	<u>640</u>
Change in net assets	24,160
Total net assets – beginning of year	<u>-</u>
Total net assets – end of year	<u>\$ 24,160</u>

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended June 30, 2008

	Business-Type Activities - Enterprise Fund
	Catering Fund 2008
Cash flows from operating activities:	
Cash received from customers	\$ 94,017
Cash paid to supplies and employees	<u>(64,976)</u>
Net cash provided by operating activities	<u>29,041</u>
Cash flows from investing activities	
Interest income	<u>640</u>
Net cash provided by investing activities	<u>640</u>
Increase in cash and cash equivalents	29,681
Cash and cash equivalents – beginning of year	<u>-</u>
Cash and cash equivalents – end of year	<u>\$ 29,681</u>

**RECONCILIATION OF NET OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Net operating income	\$ <u>23,520</u>
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
(Increase) decrease in accounts receivable	(18,227)
(Increase) decrease in inventory	(1,685)
Increase (decrease) in accounts payable	432
Increase (decrease) in salaries payable	19,610
Increase (decrease) in benefits payable	<u>5,391</u>
Total adjustments	<u>5,521</u>
Net cash provided by operating activities	<u>\$ 29,041</u>

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUND TYPES

June 30, 2008

With Comparative Totals for the Year Ended June 30, 2007

<u>ASSETS</u>	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>	<u>2008</u>	<u>Totals</u> <u>2007</u>
Cash and cash investments	\$ 35,857	\$ 21,151	\$ 57,008	\$ 51,025
Due from students		8,811	8,811	3,470
TOTAL ASSETS	<u>\$ 35,857</u>	<u>\$ 29,962</u>	<u>\$ 65,819</u>	<u>\$ 54,495</u>
 <u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES:				
Due to other governments	\$	\$ 29,962	\$ 29,962	\$ 17,431
Due to student groups				
TOTAL LIABILITIES	-	29,962	29,962	17,431
NET ASSETS:				
Reserved for:				
Trust activities	35,857		35,857	37,064
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,857</u>	<u>\$ 29,962</u>	<u>\$ 65,819</u>	<u>\$ 54,495</u>

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF ADRIAN
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Years Ended June 30, 2008 and 2007

	Totals Private Purpose Trust Funds	
	<u>2008</u>	<u>2007</u>
ADDITIONS:		
Contributions	\$	\$ 166
Investment earnings	<u>1,143</u>	<u>1,480</u>
TOTAL ADDITIONS	<u>1,143</u>	<u>1,646</u>
DEDUCTIONS:		
Scholarships awarded	<u>2,350</u>	<u>1,250</u>
TOTAL DEDUCTIONS	<u>2,350</u>	<u>1,250</u>
Change In Net Assets	(1,207)	396
NET ASSETS:		
Beginning of year	<u>37,064</u>	<u>36,668</u>
End of year	<u>\$ 35,857</u>	<u>\$ 37,064</u>

See notes to financial statements.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School District of the City of Adrian (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is governed by the Board of Education (the "Board") of the School District of the City of Adrian, which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type.

Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income, and other revenues).

The District allocates indirect costs to categorical and Federal programs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and the major individual enterprise fund (Catering Fund) are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Capital Project Fund* is the District's bond fund. It accounts for the proceeds of bond issues, investment interest on those bonds, and the expenditures of the bond.

The District reports the following nonmajor governmental funds:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trust or major capital projects). The District accounts for its food service and athletic activities in the Special Revenue Funds.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Permanent Fund* has been reclassified as a Private Purpose Trust Fund in the Fiduciary Funds. The beginning fund balances and net assets have been adjusted accordingly.

Proprietary Funds account for activities that have profit and loss aspects.

The District reports the following major proprietary fund:

The *Catering Fund* accounts for the catering performed by food service employees with the intention of earning a profit.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust Funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary Funds are not included in the government-wide statements.

The *Private Purpose Trust Fund* is accounted for using the accrual method of accounting. Private Purpose Trust Funds account for assets where the principal and interest may be spent and for assets where the principal must be preserved and the interest may be spent. These funds are not reported on the District financial statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activity (Catering Fund), subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this general rule is payment of catering services between the District's catering function and the general fund. Elimination of these charges would distort the direct costs and program revenues reported for the two functions concerned.

Cash and cash equivalents include cash on hand and deposits with maturities less than three months in the statement of cash flows for the proprietary fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation.

<u>Fund</u>	<u>Mills</u>
General Fund Non-homestead	18.000
Debt Retirement (Non-homestead & Homestead)	4.11

3. Inventories and Prepaid Expenditures

Inventories are valued at cost (first-in, first-out). Inventories in the General and Special Revenue Funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed or used rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and equipment	5 – 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$2,000.

5. Fund Balances

Fund balances on the Governmental fund balance sheet are classified as either reserved or unreserved. The term reserved indicates that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use. The reserve for Taxes receivable represents the income from property taxes recognized, but not yet received at the fiscal year ended June 30, 2008. The reserve for Inventory is the portion of fund balance represented by inventory not available for appropriation and expenditure at June 30, 2008. The reserve for the school lunch program represents the portion of fund balance that is legally segregated for expenditure within the School Lunch Fund. The reserve for scholarships is the portion of fund balance segregated for use within the Permanent Fund. The reserve for capital outlay is legally segregated for expenditure within the Capital Project Fund. The reserve for prepaid expenditures represents the amount paid in the current fiscal year that will provide benefit to the subsequent year.

6. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund. Capital Project, Special Revenue, and Debt Service Fund budgets are not required by the State of Michigan.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

7. There were expenditures in excess of appropriations in three functions but the expenditures in total were under the total appropriations of the School District. The three functions are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Added needs	\$ 4,692,568	\$ 4,705,470	\$ 12,902
Community Service Activities	<u>238,519</u>	<u>241,154</u>	<u>2,635</u>
	<u>\$ 4,931,087</u>	<u>\$ 4,946,624</u>	<u>\$ 15,537</u>

NOTE 3. DEPOSITS AND INVESTMENTS

The District utilizes pooled cash accounts for some of its funds.

Deposits

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the District. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2008, \$616,382 of the School District's bank balance of \$716,382 was exposed to custodial credit risk.

Uninsured and uncollateralized	<u>\$ 616,382</u>
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Investments

As of June 30, 2008, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>			
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 - 10</u>
Money Market Accounts	\$ 2,568,301	\$ 2,568,301	\$ _____	\$ _____
Total fair value	<u>\$ 2,568,301</u>	<u>\$ 2,568,301</u>	<u>\$ -</u>	<u>\$ -</u>

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 3. DEPOSITS AND INVESTMENTS Continued)

Interest Rate Risk. The School District's investment policy minimizes interest rate credit risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates by:

- a. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.
- b. Investing funds primarily in shorter term securities, liquid asset funds, money market mutual funds, or similar investment pools.
- c. Limiting the average maturity in accordance with the School District's cash requirements.

Currently, as shown above, more than half of the total fair value of the investments have maturities of less than one year.

Credit Risk. The School district's investment policy limits investments to:

- a. Bonds, bills, or notes (other than Treasury Notes) of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government.
- b. Certificates of deposit issued by any state or national bank, savings accounts of a state or federal credit union organized and authorized to operate in Michigan.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States Government.
- e. Bankers Acceptance Notes issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- f. Mutual funds composed entirely of investment vehicles that are legal for direct investment for school districts.
- g. Investment pools as authorized by the Surplus Investment Pool Act of 367 of Public Acts of 1982, being Sections 129.111 to 129.118 of the Michigan Compiled Laws, provided such pools are composed entirely of instruments that are legal for direct investment by a school district.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 3. DEPOSITS AND INVESTMENTS Continued)

Concentrations of Credit Risk. The School District's policy does not limit the amount of investment with any one issuer. For investments, more than 5% of the School District's holdings:

1. US Bank – Corporate & Institutional Trust (30% of the School District's total investments which represents 100% of the Capital Project Fund's investments) in the form of U.S. Agency Fixed Rate Notes and Bonds.
2. The School District's investments included deposits in the Michigan CLASS asset management accounts in the amount of \$5,893,788 which is 92% for the General Fund, 3% for the Special Revenue Fund, and 5% for the Debt Fund. The Michigan CLASS is not rated.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 4. CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

		<u>PRIMARY GOVERNMENT</u>		
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Depreciable assets:				
Land improvements	\$ 190,299	\$	\$	\$ 190,299
Buildings and improvements	33,227,224	23,660,290		56,887,514
Machinery and equipment	3,518,404	703,916		4,222,320
Transportation equipment	292,565			292,565
Buses	<u>1,835,311</u>			<u>1,835,311</u>
Depreciable capital assets	<u>39,063,803</u>	<u>24,364,206</u>		<u>63,428,009</u>
Less accumulated depreciation for:				
Land improvements	190,299			190,299
Buildings and improvements	8,968,621	1,072,472		10,041,093
Machinery and equipment	1,937,274	255,400		2,192,674
Transportation equipment	271,054	11,010		282,064
Buses	<u>1,396,310</u>	<u>128,309</u>		<u>1,524,619</u>
Total accumulated depreciation	<u>12,763,558</u>	<u>1,467,191</u>		<u>14,230,749</u>
Governmental activities capital assets, net	<u>\$ 26,300,245</u>	<u>\$ 22,897,015</u>	<u>\$</u>	<u>\$ 49,197,260</u>

Depreciation is computed by the straight line method for all classes of assets. Depreciation for the fiscal year ended June 30, 2008 amounted to \$1,467,191. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5. LONG-TERM DEBT

2004 SCHOOL BUILDING AND SITE BONDS

The School District has issued a general obligation bond issue, dated July 1, 2004, for the purpose of erecting, furnishing, and equipping additions to and partially remodeling Adrian Public Schools. The bond issue for \$49,750,000 has an interest rate of 3% - 5.00%.

A schedule of bond payments (including interest) is as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal Due May 1</u>	<u>Interest Due Nov. 1</u>	<u>Interest Due May 1</u>	<u>Total Due</u>
2009	4.000%	\$ 835,000	\$ 138,200	\$ 138,200	\$ 1,111,400
2010	4.000%	1,000,000	121,500	121,500	1,243,000
2011	4.000%	1,040,000	101,500	101,500	1,243,000
2012	4.250%	1,080,000	80,700	80,700	1,241,400
2013	5.000%	1,130,000	57,750	57,750	1,245,500
2014	5.000%	<u>1,180,000</u>	<u>29,500</u>	<u>29,500</u>	<u>1,239,000</u>
		<u>\$ 6,265,000</u>	<u>\$ 529,150</u>	<u>\$ 529,150</u>	<u>\$ 7,323,300</u>

2008 REFUNDING BONDS

On March 20, 2007, the School District issued \$43,795,000 in General Obligation Bonds with an average interest rate of 4.4026% to advance refund \$41,670,000 of outstanding 2004 Building and Site Bonds with an average interest rate of 5.042%

The net proceeds of \$43,418,965 (after payment of \$376,035 in underwriting fees and other issuance costs), together with \$1,184,700 from the 2004 Debt Fund were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the callable 2004 Building and Site Bonds. As a result, the callable 2004 Building and Site Bonds are considered to be defeased, and the liability for those bonds has been removed from the long term debt. The net present value savings of the refunding is approximately \$1,357,815.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5. LONG-TERM DEBT

2007 SCHOOL BUILDING AND SITE BONDS

<u>Year</u>	<u>Interest rate</u>	<u>Principal Due May 1</u>	<u>Interest Due Nov 1</u>	<u>Interest Due May 1</u>	<u>Total Due</u>
2009	4.00%	\$ 130,000	\$ 942,047	\$ 942,047	\$ 2,014,094
2010	4.00%	135,000	939,447	939,447	2,013,894
2011	4.00%	140,000	936,747	936,747	2,013,494
2012	4.00%	145,000	933,947	933,947	2,012,894
2013	4.00%	150,000	931,047	931,047	2,012,094
2014	4.00%	155,000	928,047	928,047	2,011,094
2015	5.50%	1,405,000	924,947	924,947	3,254,894
2016	4.00%	1,480,000	886,309	886,310	3,252,619
2017	4.00%	1,535,000	856,709	856,709	3,248,418
2018	4.00%	1,600,000	826,009	826,009	3,252,018
2019	4.00%	1,665,000	794,009	794,009	3,253,018
2020	4.00%	1,730,000	760,709	760,709	3,251,418
2021	4.250%	1,795,000	726,109	726,109	3,247,218
2022	4.125%	1,870,000	687,966	687,965	3,245,931
2023	4.125%	1,950,000	649,397	649,397	3,248,794
2024	4.125%	2,035,000	609,178	609,178	3,253,356
2025	4.250%	2,120,000	567,206	567,207	3,254,413
2026	4.500%	2,215,000	522,156	522,157	3,259,313
2027	4.250%	2,315,000	472,319	472,319	3,259,638
2028	4.250%	2,415,000	423,125	423,125	3,261,250
2029	4.250%	2,515,000	371,806	371,807	3,258,613
2030	4.250%	2,620,000	318,363	318,362	3,256,725
2031	4.500%	2,735,000	262,688	262,687	3,260,375
2032	4.500%	2,855,000	201,150	201,150	3,257,300
2033	4.500%	2,980,000	136,913	136,912	3,253,825
2034	4.500%	3,105,000	69,863	69,862	3,244,725
		<u>\$ 43,795,000</u>	<u>\$ 16,678,213</u>	<u>\$ 16,678,212</u>	<u>\$ 77,151,425</u>

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5. LONG-TERM DEBT (Continued)

The Durant Bonds, including interest, were issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid Payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. Due to economic conditions in the State of Michigan, payments of State Aid were eliminated and those payments due in years 2003 through 2008 are scheduled to be paid in year 2012.

The following is a schedule of the governmental long term obligations for the District for the year ended June 30, 2008.

<u>Payment Dates Due on May 15*</u>	<u>Amount of Principal Installment</u>	<u>Interest</u>	<u>Total Principal Installment and Interest Payment</u>
2009	\$ 48,671	\$ 12,743	\$ 61,414
2010	50,986	10,426	61,412
2011	53,414	7,999	61,413
2012	304,694	107,927	412,621
2013	<u>58,618</u>	<u>2,791</u>	<u>61,409</u>
	<u>\$ 516,383</u>	<u>\$ 141,886</u>	<u>\$ 658,269</u>

*Or the next business day after May 15, if May 15 is not a business day.

Total Settlement Amount of	\$	1,749,075
Bonded Settlement Amount of		874,538
Annual Interest Rate is		4.761353%
Average Life of Bonds is		6.783

Early Retirement Incentives Accrual

The District has contracts with three of its employee groups that contain provisions which entitle the employees who retire under circumstances specified in the contracts to post retirement benefits. The undiscounted value of these benefits for employees who had retired on or before June 30, 2008 totaled \$1,116,148, with \$352,075 payable in the twelve months following June 30, 2008 and the remainder of \$764,073 in years thereafter. These benefits are terminated at the retired employee's death.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5. LONG-TERM DEBT (Continued)

	<u>Durant Bonds</u>	<u>Compensated Absences</u>	<u>Post Retirement Benefits</u>	<u>2004 Building & Site Bonds</u>	<u>2007 Building & Site Bonds</u>	<u>Total</u>
Balance July 1, 2007	\$ 516,383	\$ 516,682	\$ 1,254,894	\$ 6,955,000	\$ 43,795,000	\$ 53,037,959
Additions		64,488	102,946			167,434
Deletions		<u>(52,863)</u>	<u>(241,692)</u>	<u>(690,000)</u>		<u>(984,555)</u>
Balance June 30, 2008	516,383	528,307	1,116,148	6,265,000	43,795,000	52,220,838
Less:						
Current portion	<u>48,671</u>	<u>175,258</u>	<u>352,075</u>	<u>835,000</u>	<u>130,000</u>	<u>1,541,004</u>
Total due after one year	<u>\$ 467,712</u>	<u>\$ 353,049</u>	<u>\$ 764,073</u>	<u>\$ 5,430,000</u>	<u>\$ 43,665,000</u>	<u>\$ 50,679,834</u>

The annual requirements to amortize debt outstanding as of June 30, 2008, including interest payments of \$34,556,611, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amounts Payable</u>
2009	\$ 1,013,671	\$ 2,173,237	\$ 3,186,908
2010	1,185,986	2,132,320	3,318,306
2011	1,233,414	2,084,493	3,317,907
2012	1,529,694	2,137,221	3,666,915
2013	1,338,618	1,980,385	3,319,003
2014-2018	7,355,000	8,903,043	16,258,043
2019-2023	9,010,000	7,236,379	16,246,379
2024-2028	11,100,000	5,187,970	16,287,970
2028-2033	13,705,000	2,581,838	16,286,838
2034	<u>3,105,000</u>	<u>139,725</u>	<u>3,244,725</u>
	50,576,383	34,556,611	85,132,994
Compensated absences	528,307		528,307
Post retirement benefits	<u>1,116,148</u>		<u>1,116,148</u>
	<u>\$ 52,220,838</u>	<u>\$ 34,556,611</u>	<u>\$ 86,777,449</u>

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 6. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Plan Description The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental, and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Members enrolled in MIP on or after July 1, 2008, will contribute 3% of compensation up to \$5,000; 3.6% of compensation \$5,001 through \$15,000; 6.4% of compensation over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 were 17.74% of payroll through September 30, 2007, and 16.72% effective October 1, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to the MPERS for the years ended June 30, 2008, 2007, and 2006, were \$3,193,202, \$4,081,561, and \$3,974,677, respectively, equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPERS Act, all retirees have the option of continuing health, dental, and vision coverage.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The District cannot estimate losses from reported and unreported claims at June 30, 2008. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency.

The District has entered into an arrangement with Michigan Employee Benefit Services, Inc. in which the District partially self-funds for health insurance and fully self-insures for prescription, vision and dental coverages. The District is building reserves that enable it to pay claims as they are submitted, which helps cushion potential future cost increases. Should the District end this arrangement and become fully insured in the future, the reserve must be large enough to handle approximately three months of run-off claims after the self-insured arrangement ends.

No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

NOTE 8. SHORT TERM DEBT – STATE AID NOTES

State School aid anticipation notes are issued under the provisions of Section 1225 of Act 451, Public Acts of Michigan, and Act 34 of Michigan for the purpose of providing money for school operations. The District has pledged its state aid as collateral. In the event of unavailability or insufficiency of State school aid, the note is payable from taxes levied by the District. The interest rate is 3.68% and the maturity date is August 2008. Interest paid and accrued on this note for the year ended June 30, 2008 was \$213,440.

Short-term debt activity for the fiscal year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
State aid notes	<u>\$ 4,400,000</u>	<u>\$ 5,800,000</u>	<u>\$ 4,400,000</u>	<u>\$ 5,800,000</u>

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 9. INTERFUND BALANCES AND TRANSFERS

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. All balances are expected to be repaid within one year.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	6,520	Capital projects	6,520
TOTALS	\$ 6,520		\$ 6,520

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 10. CONTINGENCIES

The District is currently involved in a case of misappropriation of funds that could affect the fund balance of the future year.

NOTE 11. HEADSTART - PROJECT NUMBER DCH454154-JULY 1, 2007 THROUGH JUNE 30, 2008

At June 30, 2008, Funds in the amount of \$2,539,244 were spent for the project grant year. All of the expenditures were allowable under the grant. The breakdown of those expenditures is as follows:

	<u>PA 22</u>	<u>PA 20</u>	<u>TOTAL</u>
Federal funds authorized	\$ 2,589,008	\$ 29,739	\$ 2,618,747
Federal share of outlays shown on SF 269	<u>2,509,505</u>	<u>29,739</u>	<u>2,539,244</u>
Balance available	<u>\$ 79,503</u>	<u>\$ -</u>	<u>\$ 79,503*</u>

* On August 10, 2008, \$62,324 was returned to the Headstart program.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 12. FEDERAL FUNDS

A reconciliation of Federal revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds and the expenditures reported on the Schedule of Expenditures of Federal Awards at June 30, 2008 is as follows:

Federal revenues	(page 7)	\$ 4,645,502
Child Care Food Program (CFDA 10.558) was used to reduce food expense in the Headstart Program DCH454154 in fiscal year 2008.		<u>61,448</u>
Federal expenditures	(page 48)	<u>\$ 4,706,950</u>

NOTE 13. CAPITAL PROJECT FUND

The Capital Project Fund includes capital project activities funded with bonds issued after May 1, 1994. For this Capital Project Fund, the School District has complied with the applicable provisions of Paragraph 1351(a) of the Revised School Code.

**INDEPENDENT AUDITORS' REPORT ON REQUIRED
SUPPLEMENTARY INFORMATION**

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
October 16, 2008

SCHOOL DISTRICT OF THE CITY OF ADRIAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Local sources	\$ 5,081,087	\$ 5,257,624	\$ 5,338,368	\$ 80,744
State sources	22,556,188	23,293,076	22,912,392	(380,684)
Federal sources	3,876,539	3,971,078	3,673,385	(297,693)
Intermediate sources	<u>534,700</u>	<u>1,005,947</u>	<u>1,118,791</u>	<u>112,844</u>
TOTAL REVENUES	<u>32,048,514</u>	<u>33,527,725</u>	<u>33,042,936</u>	<u>(484,789)</u>
EXPENDITURES:				
Instruction:				
Basic programs	14,810,499	15,126,297	15,042,701	83,596
Added needs	4,402,418	4,692,568	4,705,470	(12,902)
Adult and continuing education	<u>101,491</u>	<u>101,568</u>	<u>92,823</u>	<u>8,745</u>
TOTAL INSTRUCTION	<u>19,314,408</u>	<u>19,920,433</u>	<u>19,840,994</u>	<u>79,439</u>
Support services:				
Pupil	1,764,814	1,736,333	1,636,784	99,549
Instructional staff	1,392,945	1,881,194	1,731,200	149,994
General administration	379,166	405,290	388,071	17,219
School administration	2,070,341	1,848,881	1,839,821	9,060
Business	1,488,164	1,820,054	1,672,432	147,622
Operation and maintenance	3,525,552	3,702,146	3,687,287	14,859
Transportation	856,218	985,466	974,338	11,128
Central	270,544	327,419	317,119	10,300
Other	<u>3,601</u>	<u>17,626</u>	<u>2,167</u>	<u>15,459</u>
TOTAL SUPPORT SERVICES	<u>11,751,345</u>	<u>12,724,409</u>	<u>12,249,219</u>	<u>475,190</u>
Community service activities	<u>342,626</u>	<u>238,519</u>	<u>241,154</u>	<u>(2,635)</u>
TOTAL EXPENDITURES	<u>31,408,379</u>	<u>32,883,361</u>	<u>32,331,367</u>	<u>551,994</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>640,135</u>	<u>644,364</u>	<u>711,569</u>	<u>67,205</u>
OTHER FINANCING SOURCES (USES):				
Sale of school property		50,000	370	(49,630)
Prior year revenue		1,500	1,686	186
Prior year expenditures				
Other				
Principal payment				
Transfers in		25,000		(25,000)
Transfers out	<u>(640,135)</u>	<u>(643,135)</u>	<u>(615,108)</u>	<u>28,027</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(640,135)</u>	<u>(566,635)</u>	<u>(613,052)</u>	<u>(46,417)</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>77,729</u>	<u>98,517</u>	<u>20,788</u>
FUND BALANCE:				
Beginning of year			<u>166,164</u>	
End of year			<u>\$ 264,681</u>	

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
School District of the City of Adrian
Adrian, Michigan

We have audited the financial statements of the governmental activities, the major fund, the business-type activities, and the aggregate remaining fund information of the School District of the City of Adrian, as of and for the year ended June 30, 2008, which collectively comprise the School District of the City of Adrian's basic financial statements and have issued our report thereon dated October 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the School District of the City of Adrian's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote

To the Board of Education
School District of the City of Adrian
Adrian, Michigan

likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We considered the deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2008-1 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the School District of the City of Adrian's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The School District of the City of Adrian's response to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit School District of the City of Adrian's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
October 16, 2008

SCHOOL DISTRICT OF THE CITY OF ADRIAN

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2008

Finding 2008-1

Finding considered a significant deficiency

Criteria:

In accordance with Statement of Auditing Standards (SAS) 112, as amended by SAS 115, it is required that all instances of fraud or misappropriation of assets of any kind be reported in writing.

Condition

The controls over the student activity accounts were so deficient, it allowed a large misappropriation of funds to be perpetrated.

Cause

Because of the poorly designed policies or procedures relating to the agency fund, cash receipts and cash disbursements from student clubs and organizations in the school district have not been receipted and recorded to properly allow the presentation of correct balances in those individual accounts.

Effect

As a result of this condition the agency fund, in particular the student activities accounts, do not have the funds available to meet their obligations due to alleged misappropriation of funds, and is currently in litigation to recover those funds.

Recommendation

Management design a policy or procedure that provides for the ability for management to be able to determine if all agency fund student activity receipts are recorded in their respective student account, and that the student activity account disbursements are properly approved and recorded, so that the individual activity account balances are in agreement with the individual accounts maintained by the students.

Client Response

We have established new control procedures and policies for the student activity (agency funds), that will place the oversight responsibility with the business office. Newly developed process' and procedures are being used at the sites where the student activity funds are collected that will enhance the accountability of the receipts, and provide control to ensure that all receipts collected are recorded to the appropriate activity account. In addition, additional procedures are in place that require certain documentation and approvals before any disbursement is made from any student activity account (agency fund). These procedures were effective for the school year beginning September 2008.

SCHOOL DISTRICT OF THE CITY OF ADRIAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUND TYPES

June 30, 2008

With Comparative Totals for June 30, 2007

<u>ASSETS</u>	<u>Special Revenue</u>	<u>Debt Service</u>	Totals Nonmajor Governmental Funds	
			<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 34,951	\$ 20,000	\$ 54,951	\$ 440,530
Investments	191,465	275,956	467,421	27,398
Accounts receivable	28,253		28,253	30,008
Property taxes receivable		36,520	36,520	20,323
Due from other nongovernmental units	48,026		48,026	260
Due from State of Michigan				41,306
Prepaid expenses	1,736		1,736	2,258
Inventory	<u>15,848</u>	<u> </u>	<u>15,848</u>	<u>15,450</u>
TOTAL ASSETS	<u>\$ 320,279</u>	<u>\$ 332,476</u>	<u>\$ 652,755</u>	<u>\$ 577,533</u>
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts payable	\$ 23,836	\$ 70	\$ 23,906	\$ 22,998
Salaries payable	4,984		4,984	31,662
Compensated absences	31,107		31,107	28,931
Accrued expenditures	1,075		1,075	
Unearned revenue	<u>4,621</u>	<u> </u>	<u>4,621</u>	<u>2,062</u>
TOTAL LIABILITIES	<u>65,623</u>	<u>70</u>	<u>65,693</u>	<u>85,653</u>
FUND BALANCES:				
Reserved for:				
Inventory	15,848		15,848	15,450
School lunch program	238,808		238,808	239,206
Debt service	<u> </u>	<u>332,406</u>	<u>332,406</u>	<u>237,224</u>
TOTAL FUND BALANCES	<u>254,656</u>	<u>332,406</u>	<u>587,062</u>	<u>491,880</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 320,279</u>	<u>\$ 332,476</u>	<u>\$ 652,755</u>	<u>\$ 577,533</u>

SCHOOL DISTRICT OF THE CITY OF ADRIAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUND TYPES

For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals Nonmajor Governmental Funds 2008</u>	<u>2007</u>
REVENUES:				
Local sources:				
Property taxes	\$	\$ 3,153,790	\$ 3,153,790	\$ 3,175,330
Investment earnings	9,995	23,986	33,981	38,472
Food sales and athletic admissions	797,874		797,874	880,625
Other	<u>32,326</u>	<u>3,177</u>	<u>35,503</u>	<u>8,397</u>
TOTAL LOCAL SOURCES	840,195	3,180,953	4,021,148	4,102,824
State sources	100,241		100,241	85,135
Federal sources	<u>972,117</u>	<u>—</u>	<u>972,117</u>	<u>907,307</u>
TOTAL REVENUES	<u>1,912,553</u>	<u>3,180,953</u>	<u>5,093,506</u>	<u>5,095,266</u>
EXPENDITURES:				
Current:				
Food service activities	1,713,265		1,713,265	1,758,444
Athletic activities	804,638		804,638	844,820
Capital outlay	9,962		9,962	7,270
Debt Service:				
Interest		2,395,771	2,395,771	2,553,562
Other	<u>—</u>	<u>—</u>	<u>—</u>	<u>69,109</u>
TOTAL EXPENDITURES	<u>2,527,865</u>	<u>2,395,771</u>	<u>4,923,636</u>	<u>5,233,205</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(615,312)</u>	<u>785,182</u>	<u>169,870</u>	<u>(137,939)</u>
OTHER FINANCING SOURCES (USES):				
Sale of school property	25		25	
Other	179		179	
Principal payment		(690,000)	(690,000)	(555,000)
Transfers in	615,108		615,108	679,082
Transfers out	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>615,312</u>	<u>(690,000)</u>	<u>(74,688)</u>	<u>124,082</u>
NET CHANGE IN FUND BALANCES	-	95,182	95,182	(13,857)
FUND BALANCES:				
Beginning of year	<u>254,656</u>	<u>237,224</u>	<u>491,880</u>	<u>505,737</u>
End of year	<u>\$ 254,656</u>	<u>\$ 332,406</u>	<u>\$ 587,062</u>	<u>\$ 491,880</u>

SCHOOL DISTRICT OF THE CITY OF ADRIAN

COMBINING BALANCE SHEET

SPECIAL REVENUE FUNDS

June 30, 2008

With Comparative Totals for June 30, 2007

<u>ASSETS</u>	<u>School Lunch</u>	<u>Athletics</u>	<u>2008</u>	Totals <u>2007</u>
Cash and cash equivalents	\$ 34,451	\$ 500	\$ 34,951	\$ 223,629
Investments	191,465		191,465	27,398
Accounts receivable	9,481	18,772	28,253	30,008
Due from other non governmental units	48,026		48,026	260
Due from other governmental units				41,306
Prepaid expenses	1,736		1,736	2,258
Inventory	<u>15,848</u>	<u> </u>	<u>15,848</u>	<u>15,450</u>
TOTAL ASSETS	<u>\$ 301,007</u>	<u>\$ 19,272</u>	<u>\$ 320,279</u>	<u>\$ 340,309</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 6,434	\$ 17,402	\$ 23,836	\$ 22,998
Salaries payable	4,913	71	4,984	31,662
Compensated absences	29,395	1,712	31,107	28,931
Accrued expenditures	988	87	1,075	
Unearned revenue	<u>4,621</u>	<u> </u>	<u>4,621</u>	<u>2,062</u>
TOTAL LIABILITIES	<u>46,351</u>	<u>19,272</u>	<u>65,623</u>	<u>85,653</u>
 FUND BALANCES:				
Reserved for:				
Inventory	15,848		15,848	15,450
School lunch program	<u>238,808</u>	<u> </u>	<u>238,808</u>	<u>239,206</u>
TOTAL FUND BALANCES	<u>254,656</u>	<u>-</u>	<u>254,656</u>	<u>254,656</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 301,007</u>	<u>\$ 19,272</u>	<u>\$ 320,279</u>	<u>\$ 340,309</u>

SCHOOL DISTRICT OF THE CITY OF ADRIAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	<u>School Lunch</u>	<u>Athletics</u>	<u>2008</u>	Totals <u>2007</u>
REVENUES:				
LOCAL SOURCES:				
Food sales and athletic admissions	\$ 608,585	\$ 189,289	\$ 797,874	\$ 880,625
Investment earnings	9,976	19	9,995	12,581
Other	<u>32,304</u>	<u>22</u>	<u>32,326</u>	<u>3,316</u>
TOTAL LOCAL SOURCES	650,865	189,330	840,195	896,522
State sources	100,241		100,241	85,135
Federal sources	<u>972,117</u>		<u>972,117</u>	<u>907,307</u>
TOTAL REVENUES	<u>1,723,223</u>	<u>189,330</u>	<u>1,912,553</u>	<u>1,888,964</u>
EXPENDITURES:				
Cost of goods sold – net	817,566		817,566	791,932
Salaries and wages	466,665	340,299	806,964	975,598
Employee benefits	191,715	117,153	308,868	372,712
Contracted services	45,294	289,289	334,583	226,085
Travel, workshops and conferences	280	3,494	3,774	2,647
Materials and supplies	88,165	54,403	142,568	153,006
Capital outlay	9,962		9,962	7,270
Miscellaneous	<u>103,580</u>		<u>103,580</u>	<u>81,284</u>
TOTAL EXPENDITURES	<u>1,723,227</u>	<u>804,638</u>	<u>2,527,865</u>	<u>2,610,534</u>
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES	<u>(4)</u>	<u>(615,308)</u>	<u>(615,312)</u>	<u>(721,570)</u>
OTHER FINANCING SOURCES (USES):				
Sale of school property	25		25	
Other	(21)	200	179	
Transfers in		<u>615,108</u>	<u>615,108</u>	<u>679,082</u>
TOTAL OTHER FINANCING				
SOURCES (USES)	<u>4</u>	<u>615,308</u>	<u>615,312</u>	<u>679,082</u>
NET CHANGE IN FUND BALANCES	-	-	-	(42,488)
FUND BALANCES:				
Beginning of year	<u>254,656</u>	<u>-</u>	<u>254,656</u>	<u>297,144</u>
End of year	<u>\$ 254,656</u>	<u>\$ -</u>	<u>\$ 254,656</u>	<u>\$ 254,656</u>

SCHOOL DISTRICT OF THE CITY OF ADRIAN

COMBINING BALANCE SHEET

DEBT SERVICE FUNDS

June 30, 2008

With Comparative Totals for June 30, 2007

<u>ASSETS</u>	<u>Durant</u> <u>Debt Service</u>	<u>2004</u> <u>Debt Service</u>	<u>Totals</u> <u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$	\$ 20,000	\$ 20,000	\$ 216,901
Investments		275,956	275,956	
Property taxes receivable		<u>36,520</u>	<u>36,520</u>	<u>20,323</u>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 332,476</u>	<u>\$ 332,476</u>	<u>\$ 237,224</u>

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable		70	70	
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FUND BALANCES:

Reserved for:

Debt service	\$	\$ 332,406	\$ 332,406	\$ 237,224
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TOTAL FUND BALANCES	<u>\$ -</u>	<u>\$ 332,476</u>	<u>\$ 332,476</u>	<u>\$ 237,224</u>
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SCHOOL DISTRICT OF THE CITY OF ADRIAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

DEBT SERVICE FUNDS

For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	<u>Durant</u> <u>Debt Service</u>	<u>2004</u> <u>Debt Service</u>	<u>2008</u>	Totals <u>2007</u>
REVENUES:				
LOCAL SOURCES:				
Property taxes	\$	\$ 3,153,790	\$ 3,153,790	\$ 3,175,330
Investment earnings		23,986	23,986	25,891
Other		<u>3,177</u>	<u>3,177</u>	<u>5,081</u>
Total local sources	<u>-</u>	<u>3,180,953</u>	<u>3,180,953</u>	<u>3,206,302</u>
TOTAL REVENUES	<u>-</u>	<u>3,180,953</u>	<u>3,180,953</u>	<u>3,206,302</u>
EXPENDITURES:				
Debt Service:				
Interest expense		2,395,771	2,395,771	2,553,562
Other expense				<u>69,109</u>
TOTAL EXPENDITURES		<u>2,395,771</u>	<u>2,395,771</u>	<u>2,622,671</u>
EXCESS OF REVENUES OVER EXPENDITURES		785,182	785,182	583,631
OTHER FINANCING SOURCES (USES):				
Principal repayment		<u>(690,000)</u>	<u>(690,000)</u>	<u>(555,000)</u>
NET CHANGE IN FUND BALANCES	-	95,182	95,182	28,631
FUND BALANCES:				
Beginning of year	<u>-</u>	<u>237,224</u>	<u>237,224</u>	<u>208,593</u>
End of year	<u>\$ -</u>	<u>\$ 332,406</u>	<u>\$ 332,406</u>	<u>\$ 237,224</u>

SCHOOL DISTRICT OF THE CITY OF ADRIAN
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND TYPES
For the Year Ended June 30, 2008

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
Connie Gould Scholarship	\$ 1,773	\$ 77	\$	\$ 1,850
Marian Carey Scholarship	4,339	17		4,356
Alice Hurlbut Scholarship	57		57	
Jeffrey William Marvin Scholarship	<u>30,895</u>	<u>1,106</u>	<u>2,350</u>	<u>29,651</u>
	<u>\$ 37,064</u>	<u>\$ 1,200</u>	<u>\$ 2,407</u>	<u>\$ 35,857</u>

SCHOOL DISTRICT OF THE CITY OF ADRIAN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AGENCY FUND
For the Year Ended June 30, 2008

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
Cash and equivalents	<u>\$ 13,961</u>	<u>\$ 514,812</u>	<u>\$ 507,622</u>	<u>\$ 21,151</u>

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
School District of the City of Adrian
Adrian, Michigan

COMPLIANCE

We have audited the compliance of the School District of the City of Adrian with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The School District of the City of Adrian's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District of the City of Adrian's management. Our responsibility is to express an opinion on the School District of the City of Adrian's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District of the City of Adrian's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District of the City of Adrian's compliance with those requirements.

In our opinion, the School District of the City of Adrian complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

To the Board of Education
School District of the City of Adrian
Adrian, Michigan

INTERNAL CONTROL OVER COMPLIANCE

The management of the School District of the City of Adrian is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District of the City of Adrian's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
October 16, 2008

SCHOOL DISTRICT OF THE CITY OF ADRIAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Federal Grantor Pass Through Grantor Program Program Title and Grant Number	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2007	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Current Years Receipts	Accrued (Deferred) Revenue June 30, 2008	Adjustments
U. S. Department of Health & Human Services								
Direct Program								
Head Start *								
05CH4154/42	93.60	\$ 2,622,656	\$ 628,542	\$ 2,486,103	\$ -	\$ 690,865	(62,323)	Returned 8/20/08
05CH4154/43		<u>2,618,747</u>	-	-	<u>2,539,244</u>	<u>2,123,693</u>	<u>415,551</u>	
Total U.S. Department of Health & Human Services		<u>5,241,403</u>	<u>628,542</u>	<u>2,486,103</u>	<u>2,539,244</u>	<u>2,814,558</u>	<u>353,228</u>	(1)
U.S. Department of Education								
Passed through M.D.E.								
Title I, Part A Grants								
0815300708	84.010	766,594	-	-	739,307	589,182	150,125	
0615300607		93,642	27,113	93,642	-	27,113	-	
0715300607		<u>720,429</u>	<u>229,553</u>	<u>720,429</u>	-	<u>229,553</u>	-	
Total Title I		<u>1,580,665</u>	<u>256,666</u>	<u>814,071</u>	<u>739,307</u>	<u>845,848</u>	<u>150,125</u>	
Title V LEA Allocation								
0702500607	84.298	3,219	437	2,912	-	437	-	
Total Title V		<u>3,219</u>	<u>437</u>	<u>2,912</u>	-	<u>437</u>	-	
Title II Part A *								
0605200607	84.367	34,025	13,496	34,025	-	13,496	-	
0705200607		254,110	57,247	254,110	-	57,247	-	
0805200708		<u>391,751</u>	-	-	<u>299,778</u>	<u>228,324</u>	<u>71,454</u>	
Total Title II Part A		<u>679,886</u>	<u>70,743</u>	<u>288,135</u>	<u>299,778</u>	<u>299,067</u>	<u>71,454</u>	
Total Passed Through MDE Carry Forward		<u>2,263,770</u>	<u>327,846</u>	<u>1,105,118</u>	<u>1,039,085</u>	<u>1,145,352</u>	<u>221,579</u>	

See independent auditor's report.

* - Designates Major Program

SCHOOL DISTRICT OF THE CITY OF ADRIAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Federal Grantor Pass Through Grantor Program Program Title and Grant Number	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2007	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Current Years Receipts	NOTES	Accrued (Deferred) Revenue June 30, 2008	Adjustments
Passed through MDE Carry Forward		2,263,770	327,846	1,105,118	1,039,085	1,145,352		221,579	
Drug Free Formula									
0728600708	84.186	1,830	-	-	1,830	1,830			
0828600708		21,285	-	-	10,949	9,803		1,146	
0628600506		4,680	1,557	4,680	-	1,557		-	
0728600607		20,068	4,476	20,068	-	4,476		-	
Total Drug Free Formula		47,863	6,033	24,748	12,779	17,666		1,146	
Title II, Part D, Tech Literacy Challenge Grants									
0824900708	84.318	14,601	-	-	8,276	5,784		2,492	
Total Title II, Part D		14,601	-	-	8,276	5,784		2,492	
Homeless Children and Youths									
062300607-C	84.196	2,967	30	2,967	-	30		-	
0823200708		42,291	-	-	42,291	33,417		8,874	
0723200708-C		8,750	-	-	8,750	305		8,445	
052300405		32,664	9,150	32,664	-	9,150		-	
Total Homeless Children and Youths		86,672	9,180	35,631	51,041	42,902		17,319	
Serv Prov/Self Prov									
0704400607	84.027A	1,877	1,877	1,877	-	1,877		-	
English Language Acquisition Title III									
0805800708	84.365	23,875	-	-	3,658	5,807		(2,149)	
0405800405		40,162	8,858	40,162	-	8,858		-	
0605800607		24,274	7,416	24,274	-	7,416		-	
Total English Language Acquisition		88,311	16,274	64,436	3,658	22,081		(2,149)	
Total MDE Carryforward		2,503,094	361,210	1,231,810	1,114,839	1,235,662	-	240,387	

See independent auditor's report.

* - Designates Major Program

SCHOOL DISTRICT OF THE CITY OF ADRIAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Federal Grantor Pass Through Grantor Program Program Title and Grant Number	Federal CFDA Number	Approved Grant Award	Acerued (Deferred) Revenue July 1, 2007	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Current Years Receipts	NOTES	Acerued (Deferred) Revenue June 30, 2008	Adjustments
Total U.S. Department of Education		<u>\$ 2,503,094</u>	<u>\$ 361,210</u>	<u>\$ 1,231,810</u>	<u>\$ 1,114,839</u>	<u>\$ 1,235,662</u>		<u>\$ 240,387</u>	
U.S. DEPARTMENT OF AGRICULTURE									
Passed Through MDE									
Child Nutrition Cluster (a)									
Summer Food Service Program (a)	10.559	24,389	-	-	24,389	12,750		11,639	
		<u>23,408</u>	<u>7,518</u>	<u>23,408</u>	-	<u>7,518</u>		-	
		<u>47,797</u>	<u>7,518</u>	<u>23,408</u>	<u>24,389</u>	<u>20,268</u>		<u>11,639</u>	
Child Care Food Program	10.558	61,448	-	-	61,448	57,551		3,897	
Child Care Food Program		<u>59,585</u>	<u>917</u>	<u>59,585</u>	-	<u>917</u>		-	
		<u>121,033</u>	<u>917</u>	<u>59,585</u>	<u>61,448</u>	<u>58,468</u>	(3,5	<u>3,897</u>	
School Breakfast Program (a)	10.553	143,118	4,172	143,118	-	4,172		-	
		<u>157,706</u>	-	-	<u>157,706</u>	<u>153,757</u>		<u>3,949</u>	
		<u>300,824</u>	<u>4,172</u>	<u>143,118</u>	<u>157,706</u>	<u>157,929</u>		<u>3,949</u>	
National School Lunch Program (a)	10.555	656,375	13,320	656,375	-	13,320		-	
National School Lunch Program (a)		<u>684,201</u>	-	-	<u>684,201</u>	<u>670,407</u>		<u>13,794</u>	
		<u>1,340,576</u>	<u>13,320</u>	<u>656,375</u>	<u>684,201</u>	<u>683,727</u>		<u>13,794</u>	
Donated Food Commodities	10.550	83,703	-	-	83,703	83,703		-	
Entitlement Commodities		-	-	-	-	-		-	
Bonus Commodities		<u>83,703</u>	-	-	<u>83,703</u>	<u>83,703</u>	(1,2)	-	
Total Commodities									
Fresh Fruits and Vegetable	10.582	22,118	-	-	22,118	14,827		7,291	
0809500708		<u>11,187</u>	<u>3,999</u>	<u>11,187</u>	-	<u>3,999</u>		-	
07095009675		<u>33,305</u>	<u>3,999</u>	<u>11,187</u>	<u>22,118</u>	<u>18,826</u>		<u>7,291</u>	
Total Fresh Fruits and Vegetables									
		<u>1,927,238</u>	<u>29,926</u>	<u>893,673</u>	<u>1,033,565</u>	<u>1,022,921</u>		<u>40,570</u>	
Total Passed Through MDE									0

See independent auditor's report.

* - Designates Major Program

SCHOOL DISTRICT OF THE CITY OF ADRIAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Federal Grantor Pass Through Grantor Program Program Title and Grant Number	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2007	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Current Years Receipts	NOTES	Accrued (Deferred) Revenue June 30, 2008	Adjustments
Total U.S. Department of Agriculture		<u>\$ 1,927,238</u>	<u>\$ 29,926</u>	<u>\$ 893,673</u>	<u>\$ 1,033,565</u>	<u>\$ 1,022,921</u>		<u>\$ 40,570</u>	
Federal Grantor Pass Through Other Pass through - Lenawee Intermediate School District									
Transition Grant 70490/TS	84.027	<u>1,270</u>	<u>-</u>	<u>-</u>	<u>1,267</u>	<u>1,267</u>		<u>-</u>	
Medicaid Outreach	93.78	<u>18,035</u>	<u>-</u>	<u>-</u>	<u>18,035</u>	<u>18,035</u>		<u>-</u>	
Total Pass Through		<u>19,305</u>	<u>-</u>	<u>-</u>	<u>19,302</u>	<u>19,302</u>	(1)	<u>-</u>	
Total Federal Financial Assistance		<u>\$ 9,691,040</u>	<u>\$ 1,019,678</u>	<u>\$ 4,611,586</u>	<u>\$ 4,706,950</u>	<u>\$ 5,092,443</u>		<u>\$ 634,185</u>	

See independent auditor's report.

* - Designates Major Program

SCHOOL DISTRICT OF THE CITY OF ADRIAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

- (1) Amount not included in R7120 and Grants Auditor Report as of June 30, 2008.
- (2) Amounts in agreement with U.S.D.A. Food Distribution Report (PAL).
- (3) The amounts reported on the R7120, Grant Section Auditors' Report, reconcile to this Schedule.
- (4) Expenditures in this Schedule are in agreement with amounts in the financial statements and the financial reports (DS4044, DS4092A, DS4169, etc.).
- (5) This is netted against the Headstart Program expenditures.
- (6) Basis of presentation – The schedule of expenditures on federal awards includes the grant activity of the School District of the City of Adrian and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements, per Note 12 in the Notes to Financial Statements

SCHOOL DISTRICT OF THE CITY OF ADRIAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Reconciliation to the R 7120 report dated 7/7/2008 and the Grants Auditor report dated 7/12/08

Current years receipt page	\$ 5,092,443
Less:	
Headstart – Direct Funding	(2,814,558)
Commodities	(83,703)
Pass Thru's	<u>(19,302)</u>
Per R 7120 7/7/2008 and Grants Auditor Report dated 7/12/08 (A)	<u><u>2,174,880</u></u>

(A)		
R7120 adjusted report dated 7/7/08	\$	920,392
Fruits and vegetable program		18,826
Title I part A		845,848
Safe and drug free schools		17,666
Service provider self review		1,877
Homeless students assistance		42,902
Title V part A regular		437
Title II part D regular		5,784
Title III regular		22,081
Title II part A		<u>299,067</u>
Total	\$	<u><u>2,174,880</u></u>

SCHOOL DISTRICT OF THE CITY OF ADRIAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of Auditors' Report Issued:

Unqualified

Internal Control over Financial Reporting:

Material weakness(es) identified?

☒ yes ☐ no

Significant deficiency (ies) identified that are
not considered to be material weaknesses?

☐ yes ☒ no

Noncompliance material to financial statements
noted?

☐ yes ☒ no

FEDERAL AWARDS

Internal Control Over Major Programs:

Material weakness(es) identified?

☐ yes ☒ no

Significant deficiency(ies) identified that are
considered to be material weaknesses?

☐ yes ☒ no

**Type of Auditors' Report Issued on Compliance
for Major Program:**

Unqualified

Any audit findings disclosed that are required to
be reported in accordance with section 510(a)
of Circular A-133?

☐ yes ☒ no

Identification of Major Programs

CFDA Number

Name of Federal Program/Cluster

93.60

Headstart

SCHOOL DISTRICT OF THE CITY OF ADRIAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS (Continued)

Dollar Threshold Used to
Distinguish Between Type
A and Type B Programs:

\$ 300,000

Auditee qualified as low-risk
auditee?

☒ yes ☐ no

SECTION II - FINANCIAL STATEMENT FINDINGS

See the findings included on page 37 of the Report on Internal Control Over Financial Reporting on Compliance and Other Matters on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

October 16, 2008

To the Board of Education
School District of the City of Adrian
Adrian, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of School District of the City of Adrian (District) for the year ended June 30, 2008, and have issued our report thereon dated October 16, 2008. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated June 17, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

2. Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimated accounts and taxes receivable, estimated compensated absences, estimated capital asset lives for depreciation and the estimated values used for the District's capital assets upon the implementation of GASB Statement No. 34.

Accounts and taxes receivable and compensated absences are estimated using the information available as of the date of the auditors' report. Management's estimate of values used for the District's capital assets is based upon either historical cost, if known, or the estimated fair value at the implementation of GASB Statement No. 34 and estimated useful lives are reviewed annually. We evaluated the key factors and assumptions used to develop accounts and taxes receivable, capital assets and the lives for depreciation in determining that they are reasonable in relation to the financial statements taken as a whole.

To the Board of Education
School District of the City of Adrian
Adrian, Michigan

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 16, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements for a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Robertson, Eaton & Owen, P.C.